

The Regulation of Political Finance in Canada: A Democratic Audit

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In the ample literature evaluating the regulation of political finance in various jurisdictions, the evaluative criteria normally brought to bear include transparency, enforcement and deterrence of political corruption. To evaluate Canada's new regulatory regime in terms of the democratic audit values of participation, inclusiveness, and responsiveness requires that we consider party and election finance laws as being integral to the construction of democracy, rather than frameworks designed to prevent monied interests from corrupting elected officials. This shift in emphasis is consistent with the shifting focus of the literature examining party and election finance legislation, and offers an opportunity to evaluate Canada's new regulatory regime with democratic criteria in mind.

Federal elections and political parties in Canada first became subject to meaningful regulation in the 1970s. Even under these less extensive regulations, it can be argued that the rules governing election finance affected the extent and quality of participation, inclusiveness and responsiveness. Since the 1974 reforms, a series of legal challenges and legislative changes has made party and election finance in Canada subject to much more extensive regulation and state support. Moreover, the reach of the regulatory regime has been extended to encompass not only the finances of registered political parties and their candidates, but also of individuals running for party nominations and leaderships, as well as groups and individuals seeking to intervene in elections as 'third party' advertisers. Given the increased scope of the legislation, there is now no question that the regulation of political finance is an important underpinning of democratic activity in federal politics in Canada.

This paper examines dimensions of Canada's new regulatory regime selectively, guided by the comparative parties and elections literature which identifies areas in which election finance is the most likely to affect participation, inclusiveness and responsiveness. The paper concludes that there is only modest evidence supporting the idea that the new regime is beneficial to the quality of Canadian democracy, but little suggesting that its impact is negative. To conclude that the new rules are benign is not insignificant, as rules governing election finance (or their absence) can potentially be corrosive to democracy.

The Regulatory Regime

The foundation for the Canadian regulatory regime governing party and election finance was laid in 1974, when Parliament passed a series of amendments to the *Canada Elections Act*. These reforms established spending limits for both political parties and candidates, requirements that parties and candidates disclose the source of all donations over \$100 as well as total amounts spent during campaigns, reimbursement of a portion of election expenditures by parties and candidates who met certain qualifications, and establishment of a political contribution tax credit that provided a significant tax credit for small donations from individuals (for details, see Young 2004). The 1974 reforms also included the first effort to limit the role of “third parties” – individuals and organizations other than registered political parties – advertising during election campaigns.

Over the subsequent three decades, this initial regulatory framework remained largely intact, with minor legislative changes to thresholds and formulae for reimbursement, thresholds for disclosure, and the value of the political contribution tax credit. In 1982, the *Charter of Rights and Freedoms* was entrenched in the Canadian constitution. The entrenched guarantees of fundamental freedoms and democratic rights contained in the *Charter* opened the door for tests of the constitutionality of several provisions of the *Canada Elections Act*; as a result, the Courts became a significant source of change in electoral law over this period. The two most notable instances of this are the *Figueroa* decision, which struck down the requirement that a party run candidates in 50 electoral districts in order to qualify for registered party status, and the series of decisions regarding third party advertising.

In 2003, the Liberal government introduced Bill C-24, which effectively implemented a new regulatory regime governing party and election finance in Canada. Unlike the 1974 legislation, which had support from the three major parties in Parliament at the time, this bill was introduced without prior consultation with the

opposition parties and was passed without all-party support. This legislation moved Canada from a regulatory regime that relied heavily on spending limits and offered moderate levels of state support to parties and candidates to a more comprehensive regime that combined spending limits with limits on the size and source of contributions, allowing entities other than individuals to make contributions only at the local level, and to a maximum amount of \$1000 per annum. Individuals could contribute a maximum of \$5000 per annum to each registered party, its local associations or candidates. The legislation also instituted significant state funding for parties, to be delivered quarterly based on the number of votes the party received in the most recent election. The legislation also extended the regulatory regime into matters previously considered the private affairs of political parties, by instituting limits on contributions to and spending by candidates running for a party's nomination in an electoral district and limits on contributions to candidates running for a party leadership. These changes came into effect in 2004. Only two years later, the newly elected minority Conservative government introduced and passed its *Accountability Act* which banned all contributions except those from individuals and further reduced the maximum amount an individual could contribute to a registered political party in one year to \$1000. The current regulatory regime is summarized in Table 1 (see also Elections Canada 2008a).

Table 1: Summary of Regulation of Party and Election Finance in Canada

Transparency

- Reporting names of all contributors over \$200, including contributions to nomination and leadership contestants
- Reporting party, candidate, nomination candidate and leadership candidate election expenses
- Reporting contributions to registered 'third parties'
- Reporting expenditures by registered 'third parties'
- Reporting assets held by electoral district associations

Spending Limits

- Candidates' election expenses (based on number of electors in district)
- Registered political parties election expenses (based on number of candidates running for party)
- Registered 'third party' election expenses (\$3666 in an electoral district; \$183,300 nationally)
- Candidate nomination expenses (20% of election spending limit for electoral district)

Public Funding

- Political Contribution Tax Credit (75% credit on contributions up to \$400, sliding scale on larger contributions)
- Election expense reimbursements:
 - 60% for candidates winning at least 10% of popular vote
 - 50% for registered parties (winning 2% of national popular vote or 5% of vote in districts where the party ran candidates)
- Per vote quarterly allowance to registered political parties winning 2% of national popular vote or 5% of vote in districts where the party ran candidates

Contribution Limits

- Only Canadian citizens/permanent residents can make political contributions, in the following amounts:
 - Maximum \$1100/annum to each registered party
 - Maximum \$1100/annum in total to various entities of each party (registered association, nomination contestants, candidates)
 - Maximum \$1100/annum to each independent candidate in a particular election
 - Maximum \$1100 in total to leadership contestants in a particular leadership contest

Participation

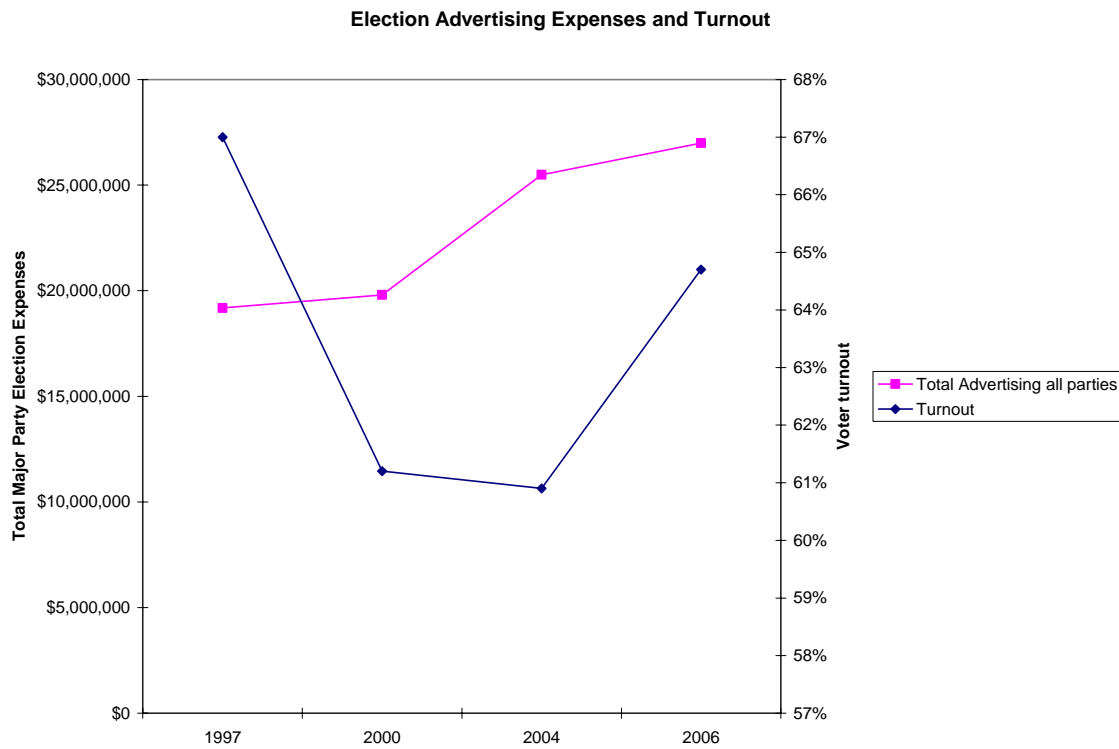
In most normative accounts of democracy, citizen participation is highly valued as the means by which citizens affect the selection of public officials and the direction of public policy. High voter turnout, strong rates of party membership and activism, and other measures of engaged citizenship are generally associated with healthy democracies, and their absence seen as a sign of democratic malaise (see, for example, Lijphart 1997). While much of the focus is on the quantity of participation, its quality also affects the quality of democracy; arguably, political systems that foster the participation of informed citizens in political organizations, taking part in face-to-face discussions of political issues are more desirable than those that encourage only the 'thin' participation of casting an occasional ballot making monetary contributions (see Putnam 1995, 71). When considering potential connections between electoral finance and participation, we must cast the net broadly. 'Participation' in this context encompasses citizens' participation as voters, as party supporters, as candidates, and as interveners in elections. Each will be discussed in turn.

Voter Participation

Voter turnout in Canada has declined gradually since the Second World War, and precipitously since 1993, with turnout in the three most recent federal elections ranging from 62 to 65 per cent of registered voters (Elections Canada 2008b). Most accounts of the source of this decline have focused on generational change (Blais, Gidengil et al. 2004), the effects of the particular constellation of party competition during this period (Johnston, Matthews et al. 2007), and the move to a permanent voter's registry (Black 2003). Not surprisingly, electoral finance does not figure prominently in any of these accounts. Nonetheless, there is reason to give some consideration to the link, in part because some empirical analyses have found positive correlations between campaign expenditures and voter turnout (Geys 2006, 647-8) and in part because the new legislation creates specific incentives to encourage parties to increase voter turnout.

Studies examining the impact of election spending on voter turnout suggest that spending on advertising provides greater information to voters or draws attention to the race, thereby increasing turnout. While it goes beyond the scope of this paper to model any effect of spending on turnout, Figure 1 suggests that the increased election advertising expenditures that resulted from the new regime did not have an immediate impact on turnout, as turnout bottomed out in 2004, the first election in which parties' advertising expenditures rose noticeably.

Figure 1



Source: Adapted from Elections Canada data.

If increased spending can boost turnout, then the reverse can also be true. Election campaigns in which all parties, or all but one party, lacks the funds to mount competitive advertising campaigns, may lower voter turnout. This appeared to have been the case in the first Manitoba provincial election after the NDP government implemented a ban on corporate and union contributions, but did not replace those

revenues with public funds. The turnout rate in that election dropped below 60 per cent for the first time (Wesley and Stewart 2006). The 2003 federal reforms avoided this pitfall by ensuring that revenues lost by banning corporate and union contributions would be replaced by public funding.

Beyond the more general relationship between election spending and turnout, there is reason to believe that the new election finance regime might have a positive impact on turnout. The formula for allocating the new quarterly allowance to political parties, starting in 2004, multiplies the number of votes cast for a party by a dollar amount. For each additional vote a party wins in an election, it can expect to receive \$1.75/vote (indexed to inflation) for each of the subsequent years. This creates a clear incentive for parties to invest in 'get out the vote' efforts, even in constituencies where the party is not competitive, in order to maximize their annual allowance. There is ample evidence that various groups and individuals used the \$1.75 incentive to encourage voters to cast a ballot (for example C. Taylor 2005; Young Women Vote 2004), but no compelling statistical evidence that this had an impact. Loewen and Blais (2006) devised four statistical tests to evaluate the proposition that the new legislation had a positive impact on turnout in 2004, but found no supporting evidence.¹ They noted, however, that public knowledge of the provisions was very low, and that parties may not have responded to the incentive structure in the first election after the new rules were adopted. While it is difficult, based on this evidence, to suggest that the electoral/party finance regulatory regime had a positive effect on voter participation, there is certainly no evidence that it has a negative effect, and there remains a potential that the impact may be felt in future elections.

Partisan Support

The act of contributing relatively small amounts of money to a political party or candidate is generally seen as a positive act of individual political participation in a democratic system. In its most limited form – direct mail or telephone solicited

¹ The study did not take the Green party into account, and consequently may have missed one dimension of the effect on turnout. This is, however, entirely speculative.

contributions – financial donations to a political party engage a citizen in a political act of similar magnitude to participating in a boycott or signing a petition. It may also attach the citizen psychologically to that party and thus strengthen his/her engagement in the political system. In fairness, it must be noted that direct mail and telephone appeals to potential donors tend to try to motivate donors by exposing opponents' weaknesses and exploiting what are in some instances more extreme political views. Parties also solicit donations by selling tickets to fundraising dinners or events; in this instance the donor attends a social event during which he or she has face-to-face interaction with party office holders and supporters. In short, for an individual to contribute a modest amount to a political party or candidate is, in democratic terms, at worst benign and at best a meaningful participatory act.²

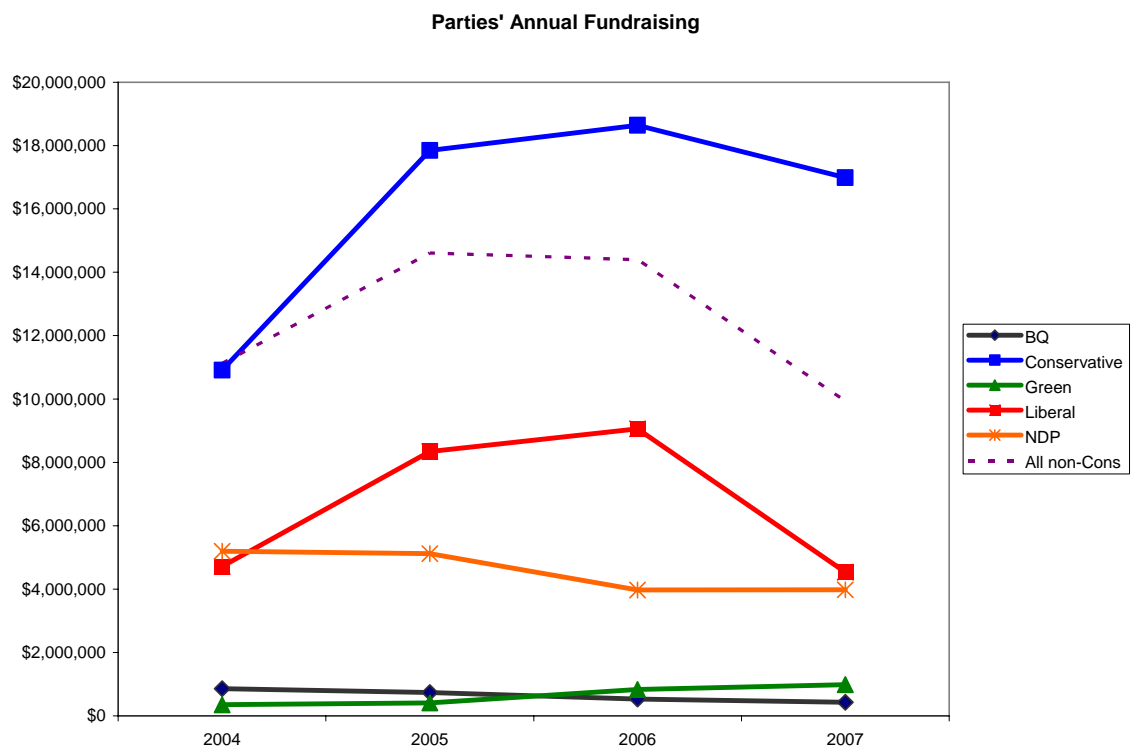
The Political Contribution Tax Credit (PCTC) first introduced in the 1974 reforms was intended to encourage small contributions from individuals, and has in fact had this effect (Young 1998, 353). The 2003 reforms enriched the tax credit, so that it is worth \$300 for a \$400 contribution, and \$833 for a contribution of \$1000. This is an extraordinarily generous tax credit, and one that the parties employ to help them solicit contributions from individuals. I have argued elsewhere that the PCTC is a democratically desirable form of public funding for political parties because it encourages them to solicit small contributions from individuals (*ibid.*)

Beyond the fundraising tool offered by the PCTC, the new regulatory regime has put a premium on individual contributions for the major parties. Beyond state funding, contributions from individuals are now the only legal source of funding for parties and candidates. When they introduced the legislation in 2003, the governing Liberals apparently believed that contributions from individuals would be a relatively minor source of income for parties under the new regime. In his speech to the House of Commons in support of the legislation, then Prime Minister Jean Chrétien estimated

² It should be noted that this evaluation assumes that donations are freely given, with no quid pro quo in mind. The normative evaluation clearly changes under such circumstances. Arguably, however, by limiting donations to \$1100, the possibility of contributions resulting in undue influence over or access to decision makers is highly unlikely.

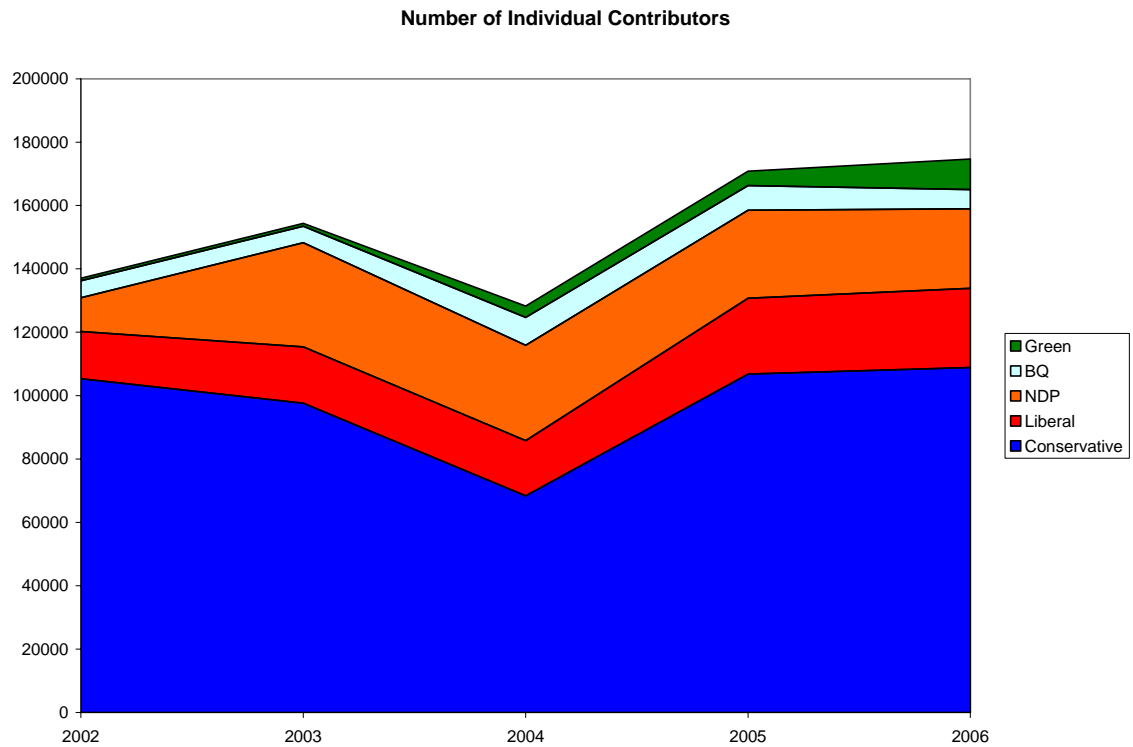
that Canadian parties would be about 80 per cent publicly funded. This estimate demonstrates the Liberal Party's devastating miscalculation of their opponents' response to the new regime. Party officials did not anticipate the merger of the Canadian Alliance and the Progressive Conservative Party, which occurred shortly thereafter. This merger not only united the two parties; it also brought together the direct-mail fundraising prowess of the PCs with the extensive grassroots donor database of the Reform Party and Canadian Alliance. The result has been the creation of a fundraising juggernaut that has contributed to the financial devastation of the Liberal Party. Since 2004, the Conservative Party has subsequently raised more money than the four other major parties combined (see Figure 2). For a party that was not able to garner enough votes to win a majority government, this is a remarkable accomplishment.

Figure 2



Source: Adapted from Elections Canada

Table 3



Source: Adapted from Elections Canada data. Note that for 2002 and 2003 the 'Conservative' figure is the sum of the Canadian Alliance and the Progressive Conservatives.

Although the Conservatives have raised the stakes for the other parties to raise more money from individual donors, the party appears not to have significantly expanded its pool of individual donors. In 2002 and 2003, the Canadian Alliance and Progressive Conservatives together received in the neighbourhood of 100,000 contributions from individuals. (It is, of course, possible that some individuals contributed to both parties, thereby artificially increasing this figure). In 2006, just under 109,000 individuals contributed to the Conservative Party. The Conservatives account for under ten per cent of the total increase in the number of individual donors between 2002 and 2006. The New Democrats, in contrast to this, accounted for 39

per cent of the increase, the Liberals for 27 per cent, and the Green Party for 23 per cent.

Overall, between 2002 and 2006, the number of individuals making contributions to registered political parties increased by 37,564. When one takes into account the considerable incentive for donors to split donations among spouses or within families (both to remain within the contribution limits and to maximize their tax credit), this 27 per cent increase in the pool of contributors is relatively modest. There is, however, every reason to believe that the opposition parties have sufficient incentive to try to increase their donor pools that this figure should grow substantially over the next decade. In this respect, the new regulatory regime has had and is likely to continue to have a modest positive impact on rates of participation as political donors.

Election Campaigns

Elections represent unique moments in which the public is more focused than usual on politics. Groups or individuals seeking to influence public policy outcomes understandably perceive an election campaign as an opportunity to mobilize support around their issue, to influence voters' decisions, and possibly to affect party's commitments on this issue. This is arguably part of the public discussion that is desirable in a democracy. Even when the messages take the form of less salutary attacks on politicians or parties, they are afforded some protection as free speech in a democracy. These benefits, and the free speech that underpins them, must be balanced against the integrity of the regulatory regime, notably spending limits governing parties and candidates during elections, and now the contribution limits that prevent corporations, unions and other organizations from donating to parties.³

In the Canadian lexicon, individuals other than candidates and organizations other than registered political parties are referred to as "third parties." The 1974 reforms to election finance included a virtual ban on third party advertising, largely in an effort to protect the integrity of the spending limits for candidates and parties. This

³ For a discussion of the potential for corporations and unions to displace their political contributions into third party expenditures, see Young (2004).

provision, and a subsequent effort to strictly limit third party expenditures, were both struck down by courts in Alberta as unconstitutional infringements of freedom of expression. The federal government did not appeal the lower court rulings in either of these instances, but in 2000 Parliament again adopted legislation governing third party election expenditures. This legislation, which the Supreme Court upheld as constitutional in its ruling in *Harper v. Canada (Attorney General)*, requires third parties spending more than \$500 to register, disclose their donors and expenditures, and limit their spending to \$3666 in an electoral district or \$183,300 nationally (2008/09 limits, adjusted for inflation). Third party election expenditures are defined as those “intended to influence how an elector might vote, by promoting or opposing a registered party or the election of a candidate, including a message that takes a position on an issue with which a registered party or candidate is associated.”

While these rules strike a balance between the competing imperatives at play, they are arguably somewhat more restrictive than is desirable. A group spending its limit would have only the most modest impact on an election campaign. The legislated limits allow third parties advertising in an electoral district to spend only 4 per cent of the amount a candidate can spend (on average), and a third party advertising nationally to spend less than 1 per cent of the amount a party running in all 308 constituencies could spend. With only 80 third parties registered to advertise during the 2006 federal election, there appears little danger that third parties will drown out registered political parties and their candidates.

Inclusiveness

While the interplay between election finance and participation was located predominantly at the mass level, the interaction between election finance and inclusiveness focuses more on elite and collective actors. In particular, this examination will consider the impact, if any, of the election finance regime on the inclusiveness of the candidate selection process, as well as on the inclusiveness of the party system.

Candidate Selection

Although it is a representative institution, the Canadian House of Commons is anything but inclusive of the diversity of the Canadian population. The relative under-representation of women and ethnic minorities in the Commons has been the source of considerable public and academic attention for several decades (Erickson 1991; Pelletier 1991; Tremblay 2001; Young 2006). Less frequently noted, but also relevant, is the occupational or class composition of the House, which continues to over-represent university-educated professionals (Studlar, Alexander et al. 2000).

Of these various under-represented groups, women have attracted the most public and academic attention and so will be the focus of this analysis. In many of these accounts, by both women involved in the political system and academics, political finance has been identified as one of the barriers to the election of more women. More specifically, there is a belief that women, who earn less on average than men, and whose networks of support might disproportionately include other under-resourced women, have difficulty raising the funds necessary to mount a competitive nomination campaign. This perception led the Royal Commission on Electoral Reform and Party Financing in 1991 to recommend legislation imposing spending limits on nomination contests, and extending the use of the Political Contribution Tax Credit to nomination candidates in order to help them raise funds (Royal Commission on Electoral Reform and Party Financing 1991, 115-7). When the government introduced its package of election finance reforms in 2003, the Liberal Party women's caucus lobbied successfully to have the imposition of spending limits on nomination campaigns included in the bill; the extension of the tax credit was not included. The legislation did, however, impose limits on the size and source of contributions to candidates running for a party's nomination. With no individual able to contribute more than \$1100, the playing field has been levelled at least somewhat.

If inability to raise funds for nomination contests is a significant barrier to entry of more women into the House of Commons, then the imposition of contribution and

spending limits should have a positive effect on the inclusiveness of the candidate pool. The assumption that money poses a barrier is, however, difficult to support when the evidence is examined. An analysis of reported spending by nomination candidates in 2004 found no gender differences in the ability to raise money for nomination contests (Eagles, Jansen et al. 2005). These findings were confirmed by a survey of individuals running for party nominations in 2004, which found no statistically significant gender differences in the amount of money spent in pursuit of the nomination (Hauk and Young forthcoming). Moreover, there is little evidence, at least in the first election after the limits were imposed, that regulation affected women's willingness to run for a party nomination (*ibid*).

In concrete terms, after two elections fought under the new rules, the House of Commons appears no less inclusive than it was prior. This may change over time, but it appears unlikely that it will be primarily a product of changes to election finance rules. It is, however, worth noting that affluent individuals are no longer able to self-finance a run for a party nomination, at least once the formal nomination contest has started. Each individual running for a party nomination can now contribute only \$1100 to their own nomination or election campaign, thereby effectively eliminating self-financed campaigns.

Party System

Electoral finance reform also has the potential to affect the inclusiveness of the party system, as it determines what entities are eligible for formal status as registered parties, and because rules and practices governing electoral finance may erect barriers to the entry of new parties into the party system.

With respect to the eligibility of political parties for formal legal recognition, the current Canadian regime can only be described as highly inclusive. The Canada Elections Act had initially required that a party run candidates in 50 ridings in order to qualify as a registered party, largely as an effort to prevent the formation of 'regionally' based political parties (assuming that neither Quebec nor Ontario were

regions). Registered party status carries with it several advantages for a political grouping, most notably the ability to issue tax receipts to donors and to place the party's name on the ballot beside that of its candidates. The 50 candidate provision was challenged successfully as an infringement of the s. 3 right to vote and run for office. In its 2003 ruling in *Figuroa v. Canada (Attorney General)* the Supreme Court of Canada held that

the ability of a party to make a valuable contribution is not dependent upon its capacity to offer the electorate a genuine "government option". Political parties have a much greater capacity than any one citizen to participate in debate and they act as a vehicle for the participation of individual citizens in the political life of the country. ... The 50-candidate threshold thus infringes s. 3 of the *Charter* by decreasing the capacity of the members and supporters of the disadvantaged parties to introduce ideas and opinions into the open dialogue and debate that the electoral process engenders.

Parliament responded to this ruling by reducing the number of candidates a party must run to only one, and by legislating the definition of a political party as "an organization one of whose fundamental purposes is to participate in public affairs by endorsing one or more of its members as candidates and supporting their election." At present, sixteen parties enjoy registered status.

The question of the impact of the electoral finance regime on the ability of new parties to become 'major' parties is more complex. Rules governing party and election finance are clearly not the key determinants of a party's electoral success. The SMP electoral system constitutes a much more significant barrier for a new party without a regionally-concentrated base of support seeking to elect its candidates to the House of Commons. Even so, some critics of state funding of political parties argue that public funding serves to ossify the party system. In essence, this argument holds that established parties collude to use the resources of the state to support themselves and, in so doing, erect barriers that prevent new parties from entering the effective party system (Katz and Mair 1995). When subjected to empirical scrutiny, this proposition has not held up. Examinations of several west European cases indicate that state funding does not freeze out new competitors, and may in some instances facilitate the entry of new parties into the party system (Pierre, Svasand et al. 2000;

Scarrow 2006). Scarrow (2006: 624-5) argues that this tends to be the case when thresholds for qualifying for funding are relatively low.

The Canadian experience with public funding since 2004 bears considerable similarity to these findings. Arguably, the Green Party of Canada owes much of its recent growth and burgeoning electoral support to the new public financing regime. The party recognized the opportunity that public funding afforded and opted in 2004 to run candidates in every riding across the country, with the objective of increasing its share of the popular vote from under 1 per cent in 2000 to 2 per cent nationally, the threshold for qualifying for funding. The Greens were successful in this effort, winning over 4 per cent of the popular vote nationally, and thereby distinguishing themselves from all the other registered political parties without parliamentary representation. Since the 2004 election, the Greens have taken in over \$1 million annually in public funds. The party has used these funds to institutionalize its organization and improve its electoral showing, increasing its share of the popular vote to 4.48 per cent in the 2006 election and expanding its donor base by 1000 per cent since 2002.

In the view of the other minor parties, the threshold for eligibility for the quarterly allowance is an inequitable barrier imposed on them by the established parties. Several of the minor parties launched a constitutional challenge to the threshold of 2 per cent nationally or 5 per cent in the electoral districts where the party has endorsed candidates, on similar grounds to the *Figueroa* challenge. This challenge was ultimately unsuccessful, leaving the threshold in place.⁴ While on first glance the threshold for the quarterly allowance appears to be an arbitrary barrier to the electoral success of minor parties, it arguably strikes a balance between the desire to keep the party system fluid and responsive to new political impulses, and maintaining the fiscal integrity of the public funding program and encouraging public confidence in that program on the other (see *Longley v. Canada (Attorney General)* (2007).

Responsiveness

⁴ The Supreme Court in April 2008 declined to hear an appeal to the Ontario Court of Appeal ruling.

When we consider the connections between party finance and parties responsiveness, two questions arise: First, do the rules governing political finance affect the groups to whom parties are responsive? Second, do these rules affect parties' degree of responsiveness?

The notion of popular sovereignty implies that "the choice of public officials and the nature of public policy should be determined, or at the least strongly influenced by, the people" and that "the preferences of each citizen should be weighted equally" (Dahl, cited in Hopkin 2004). This is not an uncontested view, however, as some observers argue that responsiveness to individual citizens is less meaningful than responsiveness to organizations – like trade unions, for example – that represent the interests of groups of citizens. Nonetheless, we will use as our normative starting point for a discussion of party responsiveness the idea of popular sovereignty and its focus on citizens.

To argue that party and election finance has the potential to affect the responsiveness of parties or candidates assumes that donors individually or collectively exercise influence over party policy or politicians' decisions. Studies trying to find connections between contributions and particular policy outcomes have not found convincing evidence to this effect (for a review of the literature, see Stratman 2005). More subtly, contributions from both corporations and unions have been found to be motivated primarily by a desire to reward and protect the donor's political allies in government (Welch 1982; Fleisher 1993). This can affect the ideological orientation of the legislative body and consequently expand or constrain political opportunities for certain interests as issues arise. Even so, it is important not to overstate the role that contributors play in parties' or politicians' responsiveness.

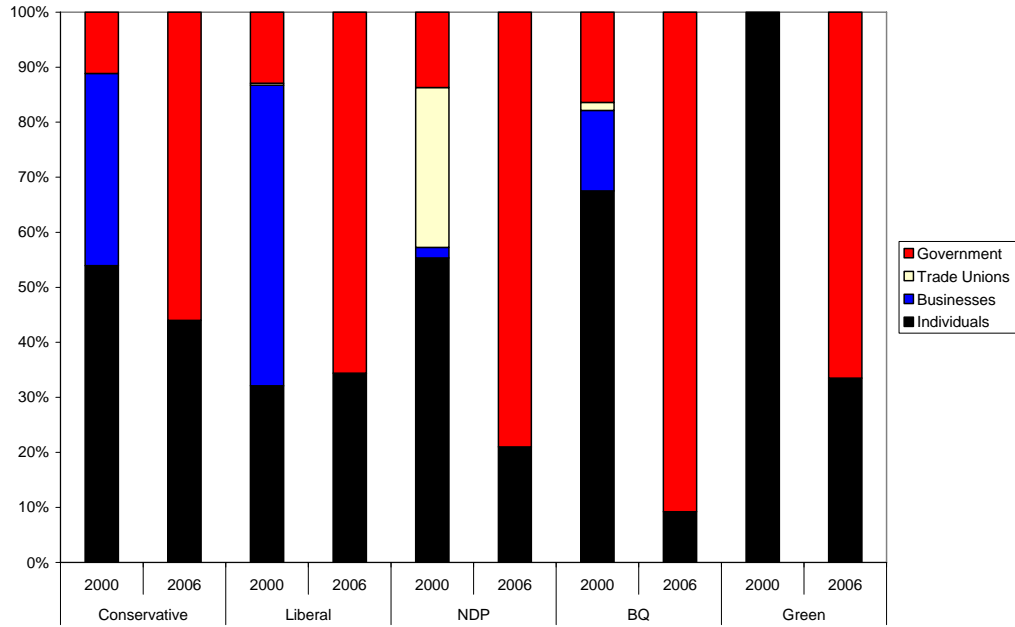
To the extent that parties and politicians are responsive to their donors, the 2004 and 2006 reforms to the *Canada Elections Act* should decrease parties' responsiveness to their former corporate and union contributors. In setting party policy, leaders and parliamentary caucuses no longer have to take into account any potential impact on the party's ability to raise funds from corporate or union donors. There is little reason to believe that severing the financial ties between business and

the Conservatives and Liberals, or between unions and the NDP will lead to a full severing of informal ties. Businesspeople remain active in the two former parties and enjoy social and other ties with elected officials, while unions have maintained much of their privileged position within the NDP (Jansen and Young 2005).

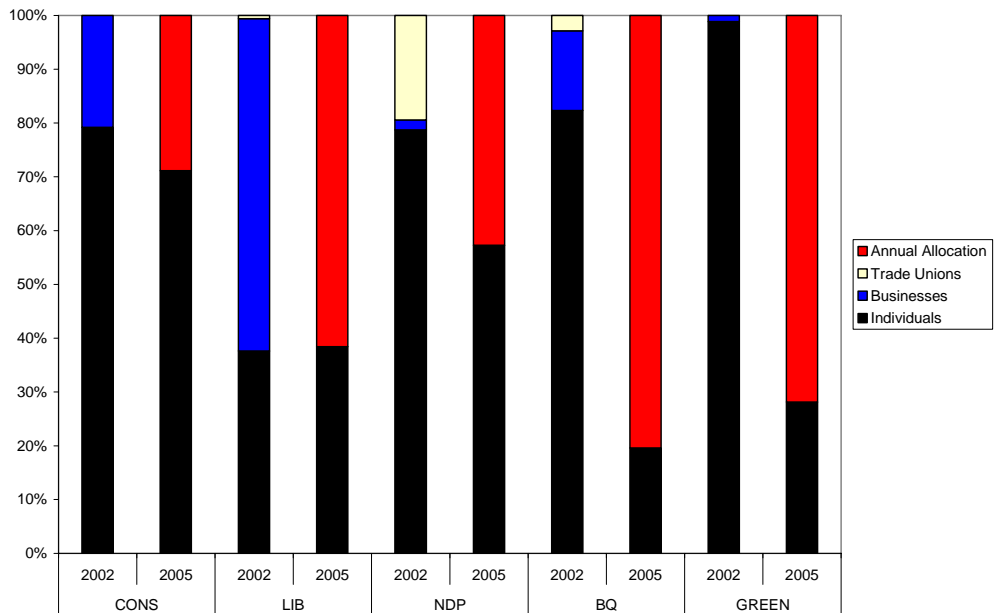
Individual contributors have taken on a much greater strategic importance for parties, as they are the only legal source of funding other than state subsidies. Even so, they have declined in importance in relative terms. Figures 3 and 4 show that, for all parties but one, individual contributions have *declined* in relative importance both in election and non-election years. The exception to this is the Liberal Party, which was the least reliant on individual contributions prior to the reforms. In relative terms, then, parties have become more reliant on the state, and less reliant on individuals. Despite this, it is reasonable to argue that individual contributors have increased in strategic importance, particularly to the parties that in the past relied more heavily on union or corporate contributions. The Conservative party's ability to raise significant funds from individual contributions has afforded the party the ability to pay for advertising outside the writ period. Shortly after Stéphane Dion was elected leader of the Liberal Party, the Conservatives ran ads attacking his leadership abilities and possibly contributing to his inability to project a positive image. The Liberals lacked the financial capacity to respond in kind. The Conservatives' fundraising prowess challenges other parties to try to match the party's ability to raise money from individuals, thereby increasing the importance of individual donors, at least for the Liberals and NDP.⁵

⁵ The Bloc is in a rather different situation, as its election expenditure limit is much lower than that for parties running nationally. Its public funds are more than adequate to meeting its electoral and other needs and it has demonstrated little interest in fundraising from individuals post-2004.

Source of National Party Revenue 2000 and 2006



Sources of National Party Revenue 2002 and 2005



Accepting that individual donors have become more important to all the parties, we are left with the question of whether this increases parties' responsiveness to individuals in a democratically desirable way. Certainly, the idea of the party reliant on small individual contributions has considerable currency. British Member of Parliament Matthew Taylor, for example, argues that making British parties reliant on small individual contributions would "tie political parties back to local activism ...[and] reinvigorate party politics, local party activity and turnout" (Taylor 2005, 621).

In the Canadian context, there is little evidence that local party activism has been reinvigorated by the 2004 reforms. Most of the new fundraising activity has taken the form of direct mail, Internet and telephone solicitation organized by national parties, not local associations. What has emerged, arguably, is a relationship between a virtual set of donors with a relationship primarily or exclusively to the national party, and whose activism is limited to making financial contributions.

Although we know relatively little about the characteristics or motivations of contributors to parties and candidates in Canada, it is safe to assume that they are not representative of the broader electorate. Analysis of use of the PCTC suggests that donors are disproportionately members of high income groups (Young 2004, 452). Disproportionate participation on the part of high-income individuals may prompt greater responsiveness to their concerns (Verba, Schlozman et al. 1995). Moreover, American research suggests that donors are more extreme in their political views (to both the left and the right) than are voters, and have somewhat different issue priorities than do voters (Panagopoulos and Bergan 2006). This presents a counter-balance to the centralizing tendency of voters' preferences, analogous to the role that more ideologically extreme party activists played in mass parties. In this respect, it is possible to think of donors as joining (or perhaps replacing) party activists as a soft constraint on party activity.

Even more significant to Canadian parties under the new regime is state funding. As Figures 3 and 4 illustrate, public funding now constitutes the majority of each major party's funds in election years (when both the quarterly allowance and the

election expenses reimbursement come into play) and a significant source of funding in non-election years.⁶ For the Liberals, the Bloc and the Greens, public funds constitute the majority of income even in non-election years. This raises the question of the effect of extensive public funding on parties' responsiveness to voters. The core concern in this respect is that as parties become more financially dependent on the state, they are equally "less beholden to their voters, supporters and members, and this may erode ties of loyalty and weaken accountability" (Williams 2000, 7). Katz and Mair (1995) suggest that extensive state funding results in a particular form of party organization – the cartel party – characterized by parties' weak embeddedness in civil society.

Examining the current Canadian situation in this light, (Young, Sayers et al. 2007, 349) argue that "the ongoing competitiveness in the Canadian party system has created a sufficient incentive for the largest parties to engage heavily in fundraising from individuals, thereby maintaining their ties to civil society" and note the ongoing links between party organizations and their former corporate and union donors. Only the Bloc, in this analysis, has lapsed into the form of the state-dependent party allowing its ties to former donors to fade away. The Bloc faces a very different set of strategic imperatives than the other parties, as its state funding is entirely adequate to allow it to mount competitive campaigns in Quebec, while the other parties continue to face significant pressures to fund frequent election campaigns across the country.

The mechanisms through which public funding is made available to Canadian parties arguably increases parties' responsiveness to individual donors. With the exception of election expense refunds, which are tied to the amount a party spends during a campaign period, public funding of Canadian parties is responsive to party support. The quarterly allocation is based on the number of votes the party attracts, and the PCTC is tied to the party's ability to solicit relatively small contributions from individual donors. These mechanisms serve to give parties incentives to be responsive

⁶ These figures under-estimate the extent of public funding because they do not include the value of the political contribution tax credit, which underwrites much of the cost to individuals of their political contributions.

to the electorate and their donors, and thus mitigate the complacency that state funding might otherwise engender.

Even so, an electorally successful party that has been able to fundraise successfully can insulate itself from downturns in its popularity by banking a portion of the funds it raises, and may be able to forestall a downturn in its electoral fortunes if it spends its funds wisely. It is, for instance, entirely possible that the Conservative Party's financial advantage over its opponents will outlast its electoral popularity.

Conclusion

On the one hand, it is difficult to argue that reforms to Canadian political finance law have made significant positive contributions to rates of participation, degrees of inclusion or parties' responsiveness to the electorate. There is little evidence that voter turnout has increased, and evidence of a modest increase in rates of individual donation to political parties. The inclusiveness of the candidate pool has not increased noticeably, while the party system has become slightly more inclusive as the Green Party has achieved status as more than a minor party (though less than a major one). Parties' responsiveness to corporate or union interests has arguably declined, and their responsiveness to the views of their donors increased, although it is not clear to what extent.

On the other hand, there is little evidence that the reforms have been damaging to the core democratic values of participation, inclusion and responsiveness. If we accept that the core purpose of such reforms is designed to achieve other objectives, including decreasing the potential for political corruption, rendering the party system financially sustainable and increasing public confidence, then an absence of unintended negative side-effects is perhaps sufficient to judge the reforms a success.

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